



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – Form 540 Section

Line 35 & Line 36

Add

Add line 33 and line 34 and enter the result on line 35. Continue to Side 2, enter the amount from line 35 on line 36.

Line 40

Child and Dependent Care Expenses Credit

On or after January 1, 2011 this credit is nonrefundable. Enter the qualifying person's social security number. If the client has more than three qualifying persons, refer to the Form 3506 instructions for additional information. If paper filing, complete and attach FTB Form 3506 to your clients' Form 540. FTB Form 3506 also transmits through the e-file process. If your client received a refund for 2010, they may receive a federal Form 1099-G. The refund amount on Form 1099-G will not include any refundable Child and Dependent Care Expenses Credit. This is because the credit is not part of the refund from withholding or estimated tax payments. The credit is not taxable on the federal tax return.

Line 41 through line 45

Special Credit Section

A variety of additional credits are available to qualified clients to reduce their tax liability. To claim your clients' credits, figure the amount of the credit and enter the credit name, code number, and amount of the credit on line 43 through line 45. Consider the following question:

"Does your client claim any of the credits listed on the Credit Chart on Pages 21 and 22 of the Form 540/540A instruction booklet?"

No: Skip line 41 through line 45. Go to line 46.

Yes: Figure the amount of your client's credit or credits. Enter the total amount of credit and the credit code number on line 43 through line 45.

See below a list of the most common credits. For a list of all credit codes available, see the credit chart in the Form 540/540A instruction booklet or the chart following this section.

The 2010 New Home/First Time Buyer tax credit is available for taxpayers who purchase a qualified principal residence on or after May 1, 2010, and before January 1, 2011. Additionally, this tax credit is available for taxpayers who purchase a qualified principal residence on or after December 31, 2010, and before August 1, 2011, pursuant to an enforceable purchase agreement executed on or before December 31, 2010. The purchase date is defined as the date escrow closes. These tax credits are limited to the smaller amount of five percent of the purchase price or \$10,000 for a qualified principal residence. This tax credit is nonrefundable and there is no carryover provision. See FTB 3549-A, *Application for New Home/First-Time Buyer Credit*, instructions.



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New Home Credit Code 219 and 221

A qualified principal residence, for purposes of the New Home Credit, must:

- Be a single family residence, either detached or attached.
- Have never been occupied.

Sellers must certify that the home has never been occupied in order for a taxpayer to receive an allocation of the credit.

- Be eligible for the California property tax homeowner's exemption.
- Occupied by the taxpayer as their principal place of residence for a minimum of 2 years immediately following the purchase.

First Time Buyer Credit Code 222

A qualified principal residence, for purposes of the First-Time Buyer Credit, must:

- Be a single-family residence whether detached or attached.
- Eligible for the California property tax homeowner's exemption.
- Occupied by the taxpayer as their principal residence for a minimum of 2 years immediately following the purchase.

A first-time buyer is defined as any individual (and the individual's spouse/RDP, if married), who did not have an ownership interest in a principal residence during the preceding three year period ending on the date of purchase of the qualified principal residence. If the buyer is married on the date of purchase and either the buyer or the buyer's spouse/RDP had an ownership interest in a principal residence during the preceding three year period, the buyer does not qualify for the First-Time Buyer Credit even if the spouse/RDP is not going to be on title.

Claiming the Tax Credit:

The taxpayer must have received a Certificate of Allocation from FTB to claim the tax credit on their California personal income tax return. The Certificate of Allocation states the maximum amount the taxpayer can claim listed by tax year. Special rules apply to married/RDP taxpayers filing separately, in which case each spouse/RDP is entitled to one-half of the tax credit, even if their ownership percentages are not equal. For two or more taxpayers who are not married/RDP, the tax credit amount will have already been allocated to each taxpayer occupying the residence on their respective tax credit allocation letter.

If the available tax credit exceeds the current year net tax, the unused tax credit may **not** be carried over to the following tax year. The tax credit may not reduce



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regular tax below tentative minimum tax. The tax credit is **not** refundable. Any disallowance of the tax credit may not be protested or appealed.

Credit for Joint Custody Head of Household Code 170

Do not claim this credit if your client filed head of household, married filing jointly/RDP, or qualifying widow(er).

Claim a credit for joint custody head of household if your client was unmarried at the end of 2011, or if the client lived apart from their spouse/RDP for all of 2011 and file married filing separately. They furnish more than one-half of the household expenses for their home, which also served as the home of their child, stepchild, or grandchild for at least 146 days but not more than 219 days. If the child is married, your client must claim the dependent exemption for the child.

The custody arrangement for the child is part of a decree of dissolution, legal separation, or separate maintenance, or is a part of a written agreement between the parents in effect during the period between the petition and issuance of the final decree.

Use the worksheet below to compute the credit.

Credit for Joint Custody Head of Household Worksheet

- | | |
|---|-----------------------|
| 1. Enter the amount from Form 540, line 35. | 1. _____ |
| 2. Credit percentage. | 2. x .30 _____ |
| 3. Credit amount. Multiple line 1 by line 2.
Enter the result or \$390, whichever is less. | 3. _____ |

Credit for Dependent Parent Code 173

Do not claim this credit if your client claimed single, head of household, married filing jointly/RDP, or qualifying widow(er) filing status. Your client claims this credit if all of the following conditions apply:

- Married at the end of 2011 and use the married filing separately filing status.
- Their spouse/RDP did not live in the clients' household during the last six months of the year.
- They furnished over one-half of the household for their dependent mother's or father's home (whether or not the parent lived in your clients' home).



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To figure the Credit for Dependent Parent, use the Joint Custody Head of Household Worksheet above.

Credit for Senior Head of Household Code 163

Claim this credit if all of the following conditions apply:

- The client is 65 years of age or older on December 31, 2011.
- The client qualifies for the head of household filing status in 2009 or 2010 by providing a household for a qualifying individual who died during 2009 or 2010.
- California adjusted gross income is \$65,153 or less for 2011.

Important Note: If your clients' 65th birthday is January 1, 2012, consider them age 65 on December 31, 2011.

Use the worksheet below to compute the credit.

Credit for Senior Head of Household Worksheet

- | | |
|--|----------|
| 1. Enter the amount from Form 540, line 19. | 1. _____ |
| 2. Multiply line 1 by 2% (.02). Enter the result or \$1,196 whichever is less. | 2. _____ |

Credit for Child Adoption Costs Code 197

For the year of court filed adoption, your client claims a credit of 50 percent of the cost of adopting a child who is a citizen or legal resident of the United States, and a California public agency or a California political subdivision held custody of the child prior to the adoption. Qualifying costs include:

- Fees of the Department of Social Services or a licensed adoption agency.
- Medical expenses not reimbursed by insurance.
- Travel expenses for the adoptive family.



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Use the following worksheet to compute the credit.

Credit for Child Adoption Costs Worksheet

1. Enter the total qualifying costs. 1. _____
2. Multiply line 1 by 50% (.50). Enter the result or \$2,500, 2. _____
whichever is less. The maximum credit is \$2,500 per minor child. Your
clients may carry over the excess credit to future years until they use the
credit.

Below is a list of possible special credits. If your client potentially qualifies for any of these credits, have them call Franchise Tax Board's public assistance telephone number for more detail.

CODE NAME	CODE #	DESCRIPTION
Child Adoption	197	50% of qualified costs in the year an adoption is ordered.
FTB 3505, <i>Child and Dependent Care Expenses</i>	None	Similar to the federal credit except that the California credit amount is based on a specified percentage of the federal credit.
Community Development Financial Institution Deposits – Certification Required	209	20% of each qualified deposit made to a community development institution. Obtain certification from California Organized Investment Network (COIN), Department of Insurance, 300 Capitol Mall Ste 1600, Sacramento, CA 95814 Website: insurance.ca.gov
Dependent Parent	173	Must use married/RDP filing separately filing status and have a dependent parent.
FTB 3547, <i>Disabled Access for Eligible Small Business</i>	205	Similar to the federal credit but limited to \$125 based on 50% of qualified expenditures that do not exceed \$250.
FTB 3547, <i>Donated Agricultural Products Transportation</i>	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations.
FTB 3501, <i>Employer Child Care Contribution</i>	190	Employer: 30% of contributions to a qualified plan.



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CODE NAME	CODE #	DESCRIPTION
FTB 3501, <i>Employer Child Care Program</i>	189	Employer: 30% of cost for establishing child care program or constructing a child care facility.
FTB 3546, <i>Enhanced Oil Recovery</i>	203	One third of the similar federal credit and limited to qualified enhanced oil recovery projects located within California.
FTB 3553, <i>Enterprise Zone Employee</i>	169	5% of wages from work in an enterprise zone.
FTB 3805Z, <i>Enterprise Zone Hiring & Sales or Use Tax</i>	176	Business incentives for enterprise zone businesses.
FTB 3511, <i>Environmental Tax</i>	218	Five cents (\$.05) for each gallon of ultra low sulfur diesel fuel produced during the taxable year by a small refiner at any facility located in this state.
FTB Pub. 3549, <i>First-Time Buyer</i>	222	The lesser of 5% of the purchase price of a qualified principal residence or \$10,000. The credit is taken equally over three years.
Joint Custody Head of Household	170	30% of tax up to \$390 for taxpayers who are single or married/RDP filing separately, who have a child and meet the support test.
FTB 3807, <i>Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax</i>	198	Business incentives for LAMBRA's.
FTB 3521, <i>Low-Income Housing</i>	172	Similar to the federal credit but limited to low-income housing in California.
FTB 3808, <i>Manufacturing Enhancement Area (MEA) Hiring</i>	211	Percentage of qualified wages paid to qualified disadvantaged individuals.
FTB 3503, <i>Natural Heritage Preservation</i>	213	55% of the fair market value of any qualified contribution of property donated to the state, any local government, or any nonprofit organization designated by a local government.
FTB Pub. 3528, <i>New Home Credit (2009)</i>	219	The lesser of 5% of the purchase price of a qualified principal residence of \$10,000. The credit is taken equally over three years.
FTB Pub. 3549, <i>New Home Credit (2010)</i>	221	The lesser of 5% of the purchase price of a qualified principal residence of \$10,000. The credit is taken equally over three years.
FTB 3527, <i>New Jobs Credit</i>	220	\$3,000 allowed for a qualified employer for each increase in qualified full-time employees hired in the current tax year..



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CODE NAME	CODE #	DESCRIPTION
Nonrefundable Renter's	None	For California residents who paid rent for their principal residence for at least 6 months in 2010 and whose AGI does not exceed a certain limit.
Other State Tax Schedule S	187	Net income tax paid to another state or a U.S. possession on income also taxed by California.
FTB 3510, <i>Prior Year Alternative Minimum Tax</i>	188	Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in 2010.
FTB 3507, <i>Prison Inmate Labor</i>	162	10% of wages paid to prison inmates.
FTB 3523, <i>Research</i>	183	Similar to the federal credit but limited to costs for research activities in California.
Senior Head of Household	163	2% of taxable income up to \$1,196 for seniors who qualified for head of household in 2008 or 2009 and whose qualifying individual died during 2008 or 2009.
FTB 3809, <i>Targeted Tax Area (TTA) Hiring & Sales or Use Tax</i>	210	Business incentives for TTA business.

The following credits are no longer available. However, your clients may claim these credits if there are carryovers available from prior years.

CODE NAME & NUMBER	CODE NAME & NUMBER	CODE NAME & NUMBER	CODE NAME & NUMBER
Agricultural Products - 175	Employee Ridesharing - 194	Joint Strike Fighter Property Cost - 216	Political Contributions - 184
Commercial Solar Electric System - 196	Energy Conservation - 182	Los Angeles Revitalization Zone (LARZ) Hiring and Sales & Use Tax - 159	Recycling Equipment - 174
Commercial Solar Energy - 181	Farmworker Housing - 207	Low-emission vehicles - 160	Residential Rental and Farm Sales - 186
Employer Ridesharing Large Employer - 191 Small Employer - 192 Transit Passes - 193	Orphan Drug - 185	Manufacturers' Investment - 199	Rice Straw - 206
Employee Ridesharing - 194	Salmon & Steelhead Trout Habitat Restoration - 200	Solar Energy - 180	Ridesharing - 171



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CODE NAME & NUMBER	CODE NAME & NUMBER	CODE NAME & NUMBER	CODE NAME & NUMBER
Solar Pump – 179	Solar or Wind Energy System - 217	Water Conservation – 178	Young Infant - 161

Line 46

Nonrefundable Renter's Credit

To determine if your client qualifies for the Nonrefundable Renter's Credit, refer to the General Information section.

Line 47

Total Credits

Add line 40 and line 42 through line 46. These are the total credits.

Line 48

Subtract

Subtract line 47 from line 36 and enter the result on line 48. If the amount on line 48 is zero or less, **enter 0**.

Lines 61 through 63

Other Taxes

TaxWise figures the amount of other taxes, line 63, correctly, provided the birth date and income statement are correct. TaxWise computes the amount of additional tax owed on an early distribution of a qualified retirement plan based on information from Form 1099-R. The computation of any other tax in this section is beyond the scope of the VITA/TCE volunteer program. If your client is subject to taxes beyond program scope, refer them to Franchise Tax Board.

Line 64

Total Tax

Add line 48, line 61, and line 63. This is the total tax.

Line 71

California Income Tax Withheld

Enter your clients' total California income tax withholding from box 17 on Forms W-2. If filing a joint tax return, be sure to include the amount withheld from the spouse's/RDP's wages.

For additional information about income tax withheld, refer to the General Information section or the 540/540A instruction booklet.